

OBSTACLES TO TRANSATLANTIC TRADE AND INVESTMENT



JUNE 2005

A survey by:



U.S. CHAMBER OF COMMERCE



U.S. CHAMBER OF COMMERCE

US Chamber of Commerce

The US Chamber represents more than 3 million businesses, nearly 3,000 state and local chambers, 830 associations, and over 100 American Chambers of Commerce abroad (AmChams).

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EUROCHAMBRES

The Association of European Chambers of Commerce and Industry represents 44 national associations of Chambers of Commerce and Industry, a European network of 2000 regional and local Chambers with over 17 million member enterprises in Europe.

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Introduction

The survey “Obstacles to Transatlantic Trade and Investment” is a joint initiative of EUROCHAMBRES and the US Chamber of Commerce. This year’s survey is the 2nd of its kind, following on from the interesting results of 2004. Its objectives are to gauge business interests toward transatlantic trade and investment and to map and draw attention to specific obstacles to transatlantic trade and investment, as perceived by small, medium-sized and big companies on both sides of the Atlantic.

Two questionnaires have been used in the execution of the survey: one addressed to US firms by the US Chamber of Commerce, and one addressed to European companies by EUROCHAMBRES and its member organisations. The two questionnaires are attached as an annex to the report.

On both sides of the Atlantic the questionnaires were divided into three main parts: background information on the companies and their transatlantic business, the main barriers they face in their transatlantic business and finally a set of broader policy oriented questions. This report highlights the key findings from the responses the companies provided.

This survey should not be considered a scientific statistical sampling but nevertheless gives a good indication of the trends and opinions of the US and European business communities.

Executive Summary

Despite the remarkable volume of transatlantic trade and investment, this survey illustrates that both US and European companies continue to face barriers when they do business across the Atlantic. Indeed, the results show many similarities to those seen in the 2004 survey.

Many of the obstacles US and European traders and investors face are of a similar nature. Unsurprisingly, exchange rate fluctuations are a risk factor on both sides of the Atlantic, albeit one that is relatively difficult to deal with at the policy level in the short-term. At the same time, regulatory barriers continue to pose problems in various areas, both in Europe and in the US. Indeed, as tariffs have been gradually reduced, non-tariff barriers have become the focus point for further trade and investment facilitation. This includes regulatory issues linked to technical standards and certification, labelling and advertising rules, different standards, customs procedures etc.

Some of the trade/investment barriers highlighted by the survey are more typical for companies on one side of the Atlantic than the other. European companies are particularly concerned by state/regional aid, entry requirements (biometric passports/visas) and the fear of legal action being taken against them. Many European respondents, although not the majority, also see the security measures implemented in customs procedures after the September 11 terrorist attacks as excessive. Meanwhile, the US firms express frustration with the overall level of EU regulation.

On a positive note more than half of the respondents on both sides expect their transatlantic trade/investment to increase over the next five years.

Overall, the companies that participated in the survey are calling for increased efforts to facilitate transatlantic trade and investment. The majority of European companies called for fewer restrictions and in practice this means less, and, more harmonized regulation. The US respondents who engage in business with Europe want a future transatlantic investment and regulation co-operation agreement to include measures on regulatory co-operation, competition/anti-trust and accounting standards in particular.

1. Respondent Profile:

Size

Both in the United States and in Europe, a deliberate effort was made to include as respondents companies of different sizes (measured by turnover and number of staff) and from different sectors. Wherever the size of companies is significant for the answers given, this is highlighted.

Figure 1: Size - European respondents

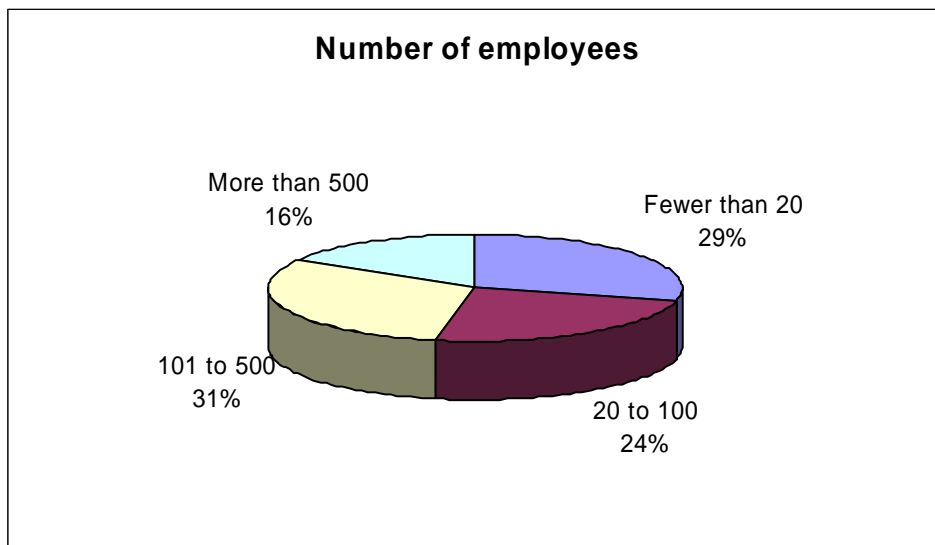
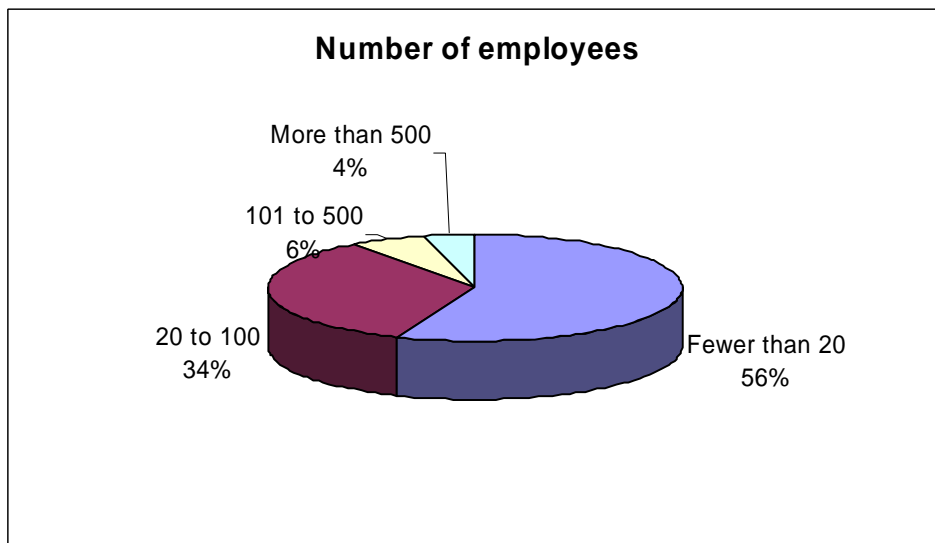


Figure 2: Size – US respondents



Business across the Atlantic

As regards the type of transatlantic business typically undertaken among the respondents, exports and imports of goods dominate (about three-fourths of the US companies and two-thirds of the European companies). A significant number of exporters and importers of services also participated, but relatively few operators with wholly/partially owned operations/ventures. This reflects the respondent profile in the survey, which is dominated by SMEs. Ninety percent of U.S. respondents and 53% of European respondents were companies with fewer than 100 employees. In this respect it is noteworthy that, in overall terms, trade in goods account for less than 20% of transatlantic commerce (of which a large and growing part is composed of investment flows and foreign affiliate sales). This survey highlights the concerns of SMEs in particular, even if many of the issues will be shared by larger firms.

It is noteworthy that very few of the respondents rely exclusively on their transatlantic business. For about half of the companies on both sides of the Atlantic, transatlantic business represented less than 10% of their revenue. About one fourth of respondents on both sides generate between 10 and 25% of their revenue from transatlantic commercial activities.

2. Market expectations

Transatlantic business expectations

When asked how they believed their transatlantic business would develop over the next 5 years, the respondents are overall quite positive. The European companies in particular express considerable optimism with more than 75% expecting their business with the US to increase. More than half of the US companies share this view, with a relatively small percentage expecting their business with Europe to actually decrease. Overall, roughly 30% of the US firms and 20% of the European firms believed their trade and investment would remain at the current levels over the next five years.

Figure 3: Expectations – US respondents

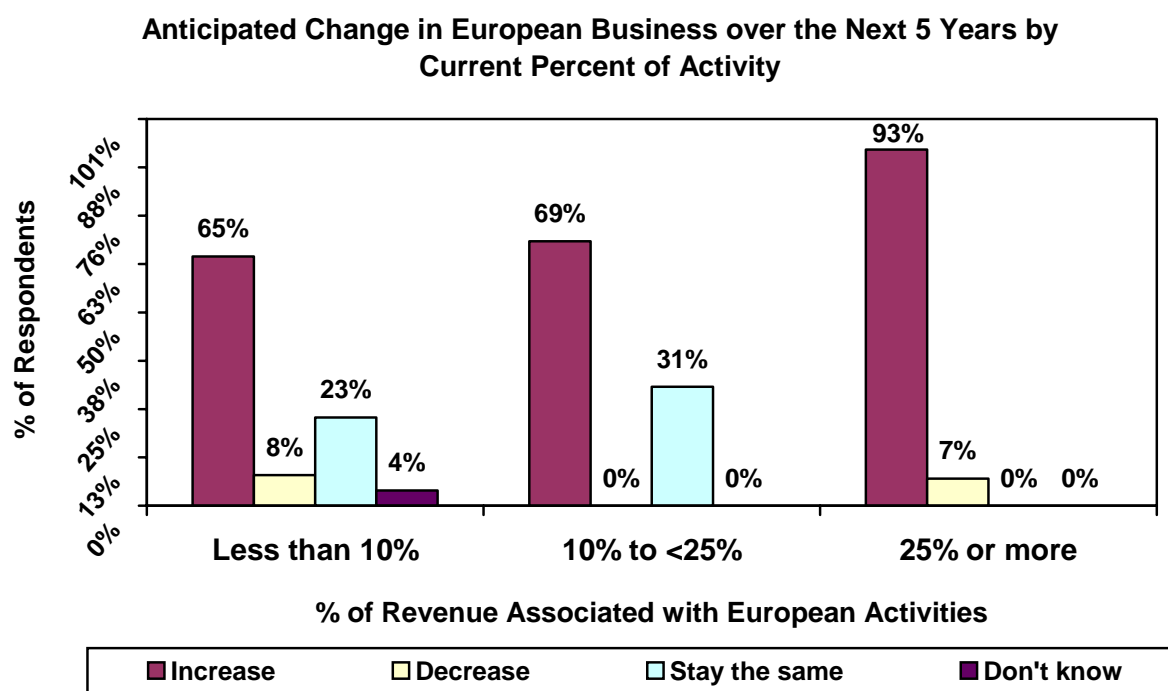


Figure 3 shows that respondents with a relatively high degree of business involvement in/with Europe generally are the most optimistic on future business in the region. This suggests that those companies currently operating in the European market do see considerable opportunities, even if they do meet many barriers (see chapter 3). 65% of the companies that currently derive less than 10% of their revenue from European activities expect to increase or substantially increase their business with Europe over the

next five years, compared to 93% or those who derive 25% or more of their revenue from European activities.

Figure 4: Expectations – European respondents

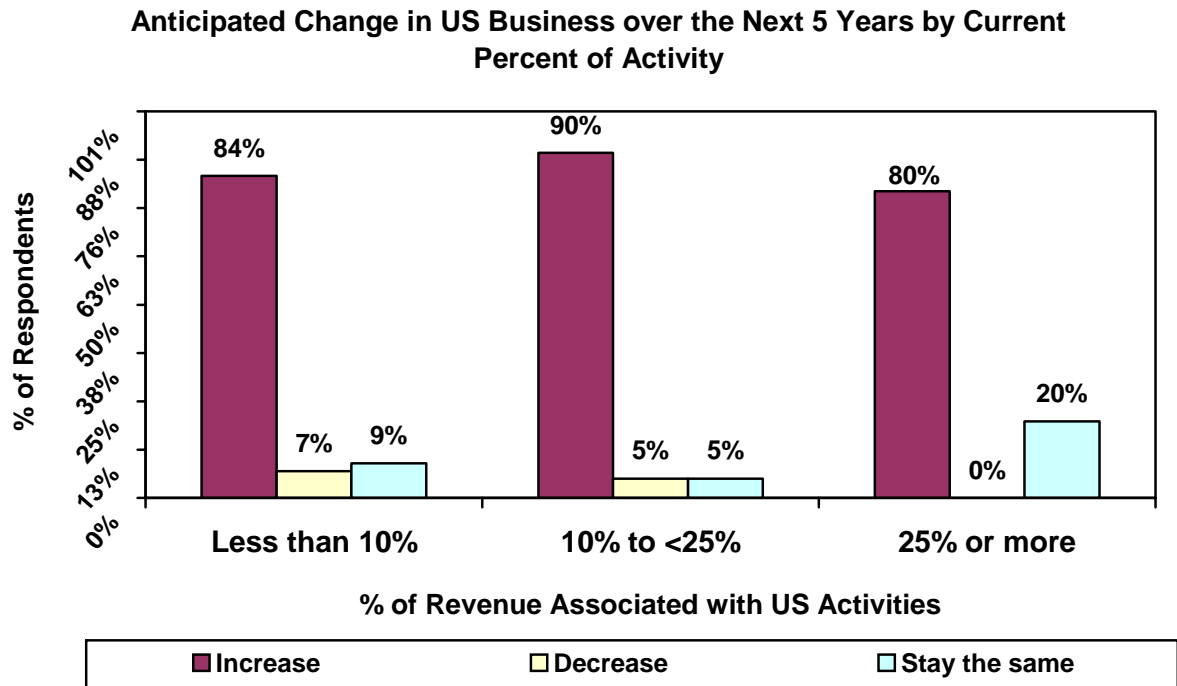


Figure 4 does not show the trend described above as strongly as with the US firms, although there is a high degree of optimism amongst most respondents, regardless of company size.

One or several markets?

The European companies were asked whether they perceive the US market as one single market. 60% of the European companies answered positively, with the remainder viewing it at least partly as separate states needing individual market entry procedures.

Main trading partners

The European companies in the survey were also asked to rank, in order of importance, their trade/investment relationship the following regions: the US, Central/Eastern Europe and Russia, China, Latin America and Southeast Asia. Central/Eastern Europe and Russia was chosen as the most important region by 57% of the respondents whilst the US came second, chosen by 22%. China came third with 11%, followed by South East Asia and Latin America both chosen by less than 10% of the respondents.

3. Trade and Investment Obstacles:

The key objective of the survey was to highlight some of the most important barriers to transatlantic trade and investment, as perceived by the companies themselves. In the questionnaire we therefore listed a number of reported obstacles and asked companies to state to which degree they find them problematic, if at all. There are a few minor differences between the lists presented to the EU and the US companies, but overall the answers reveal many similarities in the types of obstacles companies face.

Figure 5: US companies– Trade and Investment Obstacles

Trade and Investment Obstacles	Very Problematic	Somewhat Problematic	Not Problematic	N/A
Exchange rate fluctuations	24%	44%	22%	10%
Regional and local rules/procedures	21%	32%	38%	9%
EU Regulations	19%	32%	37%	13%
Customs procedures	14%	20%	58%	9%
Technical standards and certification	13%	41%	38%	9%
Taxes	13%	23%	43%	21%
Difference in accounting and securities rules	12%	23%	42%	23%
Ability to find partners	8%	47%	35%	10%
Market uncertainty/risks	8%	40%	42%	10%
State and regional aids to competing local companies	8%	38%	32%	22%
Market access restrictions for your sector	8%	22%	55%	16%
Level of information	5%	43%	44%	8%
Labeling/advertising rules	5%	28%	47%	20%
Ability to secure funding	5%	20%	44%	31%
Other*	5%	14%	19%	62%
Quality control/consumer protection	2%	38%	43%	17%

Of the responding companies that presently engage in commercial activities with Europe, one in four view exchange rate fluctuations as very problematic. The larger companies view EU regulations as much more of a problem than the smaller firms, (i.e., 11% of respondents with less than 20 employees and 33% of those respondents with more than 100 employees view EU regulations as very problematic).

Overall, exchange rate fluctuations (68%), the ability to find local partners (55%), technical standards and certification (54%), regional and local rules/procedures (53%), and EU regulations (51%) were rated the top 5 obstacles in doing business with Europe. (These numbers combine both ‘very problematic’ and ‘somewhat problematic’ results.)

Figure 6: European companies – Trade and Investment Obstacles

Trade and Investment Obstacles	Problematic	Not Problematic	N/A
State and regional aid	52.3%	29.4%	18.3%
Entry requirements – biometric passports/visas	44.5%	33.3%	22.2%
Exchange rate fluctuations	40.7%	41.7%	17.6%
Corporate governance: e.g. tax issues, reporting requirements, listing rules	36.9%	33%	30.1%
Legal liabilities – fear of legal action	33.7%	48.2%	18.1%
Differences in accounting standards	28.4%	42.4%	29.2%
Customs procedures	26.6%	36.7%	36.7%
Quality control/consumer protection	24.3%	43.9%	31.8%
Technical standards and certification	17.8%	59.8%	22.4%

US state and regional aid was noted as a problematic obstacle by more than half of the European respondents. This represents a big increase from the 2004 survey, in which about 15% of the European firms expressed this as a very problematic obstacle, and 17% as it being somewhat problematic. The European companies were not asked about entry requirements last year, but 44.5% are concerned about this issue this year. The upcoming deadline on introducing biometric passports is likely to have been a key factor in this choice.

Exchange rate fluctuations also remain a key concern. This is unsurprising given the continued volatile currency markets over the last year. Furthermore, more companies than last year perceive differences in accounting standards and corporate governance issues as problematic. As in 2004, legal liabilities or the fear of legal action potentially being taken against them also deters European companies from doing business in/with the United States, as does cumbersome customs procedures. Finally, other issues linked to the regulatory environment remain problematic and particularly technical standards and certification.

The European companies were also asked what kind of assistance would be useful for their company when establishing/expanding transatlantic business. The answers reveal a significant need for more information on regulation issues, which was requested by more than 50% of the respondents. About half of the European firms also called for

assistance in finding business partners, and 30% expressed an interest in European and national trade missions.

Key issues

The answers given from the US and the European companies have many similarities. Exchange rate fluctuations clearly constitute a factor of uncertainty for many transatlantic traders and investors. Moreover, the regulatory environment is a substantial obstacle on both sides of the Atlantic. In addition, customs procedures are still considered as a considerable obstacle among both European and US respondents.

Following the terrorist attacks in the US on September 11 2001, new regulations on US customs procedures have been introduced in order to improve security (e.g. Customs-Trade Partnership Against Terrorism, Container Security Initiative 24-Hour Rule, Bio-Terrorism Act etc.). As in 2004, we asked the European companies in the survey whether they had experienced more difficulties doing business with/in the US since September 11 2001, to which about half answered they had. The majority of these companies accept the measures as necessary but 20% think they are going too far. These answers underline the importance of policy-makers striking the right balance between security and trade facilitation.

Legal liabilities continue to be an issue of great concern not only to European companies but also domestic US firms. Indeed, one of the current priorities of the US Chamber is to improve conditions for businesses which now spend millions of dollars each year to defend against the filing and even the threat of frivolous class action lawsuits. Those costs, which could otherwise be used to expand business, create jobs, and develop new products, instead are being passed on to consumers in the form of higher prices.

4. Looking ahead:

In addition to asking companies about the trade and investment barriers they face, we also asked them to express their opinion on concrete actions which could further improve transatlantic economic relations.

The development of EU-US trade/investment relations

A wide range of initiatives are in place to ensure the well-being and development of EU-US trade/investment relations. At the political and economic levels there are platforms such as annual top-level Summits, the New Transatlantic Agenda, the EU-US Joint Action Plan, the Transatlantic Business Dialogue and the Transatlantic Economic Partnership. Through these and other instruments, such as the World Trade Organization, tariffs have been dramatically reduced and much has improved also at the investment level. High profile trade disputes and an overall troubled political agenda have not undermined this success.

The question is how transatlantic economic relations can be further developed, especially at the regulatory level, without infringing on the multilateral trade agenda. The views expressed by the respondents to this survey clearly suggest that more needs to be done.

The US companies were asked what they thought the key components of a future transatlantic regulatory co-operation and investment agreement should be. Nearly half of the respondents (43%) believed that regulatory cooperation was the most important sector. Well over half of the participants selected regulatory cooperation (60%) or competition/anti-trust laws (57%) as the most important or 2nd most important sector for the agreement. Accounting standards, consumer protection and environmental standards followed.

On the EU side a large majority of companies asked want freer or free EU-US trade and investment relations. About one-fourth of the respondents want at least some restrictions. However, only a small minority wants to keep the status or see more safeguards introduced on EU-US trade/investment.

Questionnaire on Barriers to Transatlantic Trade and Investment

BACKGROUND COMPANY INFORMATION:

1. Number of employees:

- 1-10
- 11-50
- 51-250
- More than 250

2. Turnover: (EUR)

- less than 0.5m
- 0.5m – 1.5m
- 1.5m – 7m
- 7m- 40m
- more than 40m

I. YOUR BUSINESS WITH THE US:

3. What percentage of your business is currently with the US?

- 0 %
- Less than 10%
- 10 to less than 25 %
- 25% to less than 50 %
- 50% to less than 75%
- 75% or more

4. What type of business?

- Exports/imports - goods
- Exports/Imports - services
- Purchase or offer financial services (including insurance)
- Financial and real estate investments
- Have US wholly own or partially owned operation/ventures
- Research and Development
- Conduct e-commerce on the Internet
- Transit of goods to/from third markets
- Other
- None

5. In the next 5 years, our business with the US is expected to:

- Increase
- Decrease
- Remain the same

6. Please rank the following regions in terms of importance as a trading partner (1 being most important and 5 being the least):

- US
- Central/Eastern Europe and Russia
- China

Latin America
Southeast Asia

7. Do you perceive the United States as 1 integrated single market for business purposes or as separate states still needing individual market entry procedures?

Single
Several markets

II. BARRIERS TO TRADE AND INVESTMENT:

8. Companies report trade and investment obstacles when doing business with the US. Please rate whether how important the following are to your company (option: Very problematic, Somewhat Problematic, Not Problematic, Not applicable)

Customs Procedures: time-consuming/bureaucratic/expensive

Technical standards and certification

State and regional aids to competing local companies: including government procurement provisions, subsidies and tax-schemes

Quality control / consumer protection

Exchange rate fluctuations

Corporate governance: e.g, tax issues, reporting requirements, listing rules

Differences in accounting standards

Legal liabilities – the fear of legal action (including class action law suits)

Entry requirements – biometric passports/visas

9. What kind of assistance is useful for your company when establishing/expanding transatlantic business (multiple answers possible)

Information in regulation
Assistance in finding business partners
European trade missions
National trade missions

III. YOUR OPINION ON EU-US RELATIONS:

10. How should EU-US trade relations develop over the next five years?

Want to keep the status quo
I support unlimited transatlantic free trade/investment
Towards freer trade/investment, but keep restrictions
More safeguards in transatlantic trade/investment

11. Have you experienced more difficulties doing business with/in the US since the terrorist attacks of September 11 2001?

Yes, but I accept that this is necessary
Yes, and the security measures introduced are now going too far
No

U. S. Chamber of Commerce European Trade & Investment Survey

The U.S. Chamber is gauging U.S. business interests in deepening and broadening trade and investments with Europe. The U.S. government is currently assessing what should be included in a regulatory cooperation and investment agreement with Europe. We need your input.

Your responses to this survey will be kept completely confidential and results will only be used in the aggregate. As a thank you, a FREE iPod mini will be awarded to one randomly selected participant. Please return your completed survey by May 25, 2005. Thank you in advance for you participation.

What is the size of your company?

- Less than 20 employees
- 20 to 100 employees
- 101 to 500 employees
- More than 500 employees

Which of the following commercial activities do you presently engage in with Europe?

- Export / import products
- Export / import services (other than financial)
- Export / import financial services
- Invest in European ventures / partnerships
- Transit of goods to / from third markets
- Research and Development
- None
- Other

Please specify: _____

What percentage of your total revenue is associated with commercial activities with or in Europe?

- 0%
- Less than 10%
- 10% to less than 25%
- 25% to less than 50%
- 50% or more

Over the next 5 years, how do you anticipate the amount of business that your company conducts with Europe to change?

- Increase substantially
- Increase
- Decrease substantially
- Decrease
- Stay the same
- Don't know

Would you like to do more business with / in Europe?

- Yes
- No

Not sure

Do you perceive the European Union (EU*) as one integrated single market for business purposes or as separate countries still needing individual market entry procedures?

- Single
- Several markets
- No opinion

Companies report trade and investment obstacles when doing business with Europe. Please rate how problematic the following are to your company:

	<i>Very Problematic</i>	<i>Somewhat Problematic</i>	<i>Not Problematic</i>	<i>Not Applicable</i>
Customs Procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
EU Regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Regional and local rules / procedures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Technical standards and certification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
State and regional aids to competing local companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quality control / consumer protection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Labeling / advertising rules	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market access restrictions for your sector	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Market uncertainty / risks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Level of information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ability to find partners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ability to secure funding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Exchange rate fluctuations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Difference in accounting and securities rules	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please Specify: _____

The U.S. Government has asked for input from U.S. Businesses on elements of a future Regulatory Cooperation and Investment Agreement with Europe. Please prioritize (rank 1 through 5) the sectors that you believe should be included in any new agreement with Europe.

- Regulatory cooperation... _____
- Accounting standards and securities rules _____
- Competition / anti-trust laws _____
- Consumer protection _____
- Environmental regulation _____

To be entered in the drawing to receive a FREE iPod mini, please complete the contact information below. We will only use your information for this purpose. Please note that survey responses will be kept completely confidential.

****For sweepstakes rules, visit www.uschamber.com/surveys/eustrade_rules**

Name: _____
E-mail: _____